SMALL BUSINESS AND CO-OPERATIVE DEVELOPMENT BRANCH

Introduction to Co-operatives

Manitoba
Industry, Trade
and Mines

102-01812/

Introduction to Co-operatives

TABLE OF CONTENTS

WHAT IS A CO-OPERATIVE? 2

TYPES OF CO-OPERATIVES 3

DEVELOPING A CO-OPERATIVE 4

ORGANIZATIONAL STRUCTURE 6

- ORGANIZATIONAL CHART 6
- ROLES 7

FINANCIAL PROGRAMS 8

DEVELOPMENT ASSISTANCE 9

WHAT IS A CO-OPERATIVE?

A co-operative is a distinct type of organization, collectively owned and democratically controlled by the members of the co-operative to satisfy their common economic, social or cultural needs.

1st Principle:
Voluntary and open membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle:
Democratic member control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives, members have equal voting rights (one member, one vote) and co-operatives at other levels are organized in a democratic manner.

3rd Principle:
Member economic participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes:

- developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible;
- benefiting members in proportion to their transactions with the co-operative; and
- supporting other activities approved by the membership.

4th Principle:
Autonomy and independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle:
Education, training and information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They also inform the general public - young people in particular - and opinion leaders about the nature and benefits of co-operation.

6th Principle:
Cooperation among co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, regional, national, and international structures.

7th Principle:
Concern for community

While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.

TYPES OF CO-OPERATIVES

There is a wide range of traditional co-operatives operating in Manitoba. Each provides different services to meet the varying needs of their members. Types of co-operatives include producer/marketing, retail supply, utilities, cable television, agricultural services, fish marketing, child care, farmers' markets and community service.

Workers' and housing co-operatives, while built on the traditional model, contain additional components that need to be recognized. Adding to the mix is a non-traditional co-operative that has emerged in recent years, called the New Generation Co-operative or NGC.

Workers' Co-operatives

The objective of a workers' co-operative is to provide employment to its members, who are also the owners. Members provide the capital to finance the business, each sharing the costs and risks of ownership.

Major benefits to the employee-members include involvement in the policy-making process, through the election of a Board of Directors, profit sharing through patronage allocations, and a quality of work life that is established by the membership.

Housing Co-operatives

The objective of a housing co-operative is to provide housing to its members. As is the case with other co-operatives, it is owned and controlled by its member residents, who elect a board of directors to represent them. Under Manitoba legislation, housing co-operatives fall under two categories: not-for-profit and others.

This legislation puts certain limitations on not-for-profit housing co-operatives. For instance, they are precluded from selling investment shares and are required to carry on business without the purpose of gain for their members. The legislation also addresses the uniqueness of housing by providing standards to define members' obligations to the co-operative.

New Generation Co-operatives

New Generation Co-operatives (NGCs) represent an emerging trend in agriculture, forestry, fishing and other industries that are supplied by producers. These are distinct types of co-operatives formed to enable members to process raw commodities. As a result, members not only receive market prices for their produce, they also gain the opportunity to profit from processing and marketing these value-added products.

It is primarily the financial structure and membership requirements that distinguish NGCs from the more traditional co-operatives. Typically, higher equity investments are required by members in order to establish a processing plant. Furthermore, the number of members is limited to those who purchase delivery rights, as well as by the processing capacity of the plant. Because of the unique structure of NGCs, members feel a greater degree of personal ownership and a stronger commitment to the co-operative.

DEVELOPING A CO-OPERATIVE

Identify the opportunity

Every new business venture begins with an idea. It could be a new product or service, or a variation on an existing one. Often, the process to start a co-operative begins with a group realizing they face a common challenge, a perceived opportunity or a mutual need.

Determine the project need

Once the need for a co-operative is determined, arrange a meeting with potential members, where community leaders can present the idea and its benefits, and obtain feedback from interested parties.

It is a good idea to survey the potential members to measure the concept, evaluate the volume of business that may exist and determine if people are willing to contribute financially to the project.

Do a feasibility study

If the interest to proceed is sufficient, your next step is to select a steering committee and have a feasibility study completed. The study should be done by someone who is an industry expert and is independent of the co-operative.

The results of the feasibility study will help your group assess the project's potential success, however, it is not a guarantee. It will provide you with the information you need to make a sound decision on whether to proceed with the venture, and how best to go about it.

When the feasibility study is complete and indicates feasibility and viability, present it to the potential members of the co-operative to consider how to proceed.

Ingredient for a successful co-operative

Although there are many ways to develop a co-operative, there are certain steps or processes adopted by many successful co-operatives.

If the decision is made to proceed, with the venture, the key areas to address are the organizational structure and the business plan.

For the most part, co-operatives require assistance from experienced outside resources, such as lawyers, accountants, community leaders and industry experts. They will help you develop reasonable and appropriate organizational structures and sound business and financial plans.

Incorporating your co-operative

Proceed with the incorporation of the co-operative only when a decision to proceed is obtained by enough potential members to achieve the volumes of business outlined in the feasibility study. Manitoba requires the preparation of Articles of Incorporation and bylaws that will reflect co-operative principles.

To incorporate, there are minimum standards that must be met. You must have:

- three individuals or two corporations willing to act as incorporators;
- three individuals willing to act as first directors;
- approval of the co-operative's name at the Office of the Registrar of Co-operatives;
- completion of a name reservation at the Companies Office;
- completion of Articles of Incorporation; and
- completion of bylaws.

If the amount of the membership requirement exceeds $500 in membership shares, or if special investment shares (delivery rights) are being issued, an Offering Statement must be filed with the Registrar.
A request for exemption from filing an Offering Statement can be made to the Registrar, who may provide the exemption but may require the use of a disclosure document.

If any investment shares are being sold to the public, a prospectus must be filed with the Securities Commission.

The approved Name Reservation, Articles of Incorporation, bylaws and if required, the Offering Statement, must be submitted to the Registrar of Co-operatives together with the required fees.

After incorporation

Once the incorporation process is complete, the incorporators are usually the first directors and the only members until new members are approved by the board. Arrange a meeting of members and potential members as soon as possible. Potential members should be encouraged to join before the meeting in order to have the right to vote. At the meeting, voting members should elect directors, approve the bylaws, set out financial requirements of membership and arrange to finance the preparation of a business plan.

The business plan

A business plan is a document providing a complete description of the proposed co-operative enterprise. The plan must include financial projections, marketing opportunities and other pertinent information about the venture. It must also address all issues relevant to the project.

Once a decision is made to proceed, present the business plan to the potential membership. The member owners require the information to help them decide if they are willing to risk investing equity in the new business.

After securing the members' support, present the plan to the individuals or organizations from whom the co-operative is seeking financial support. It is important that the business plan explain:

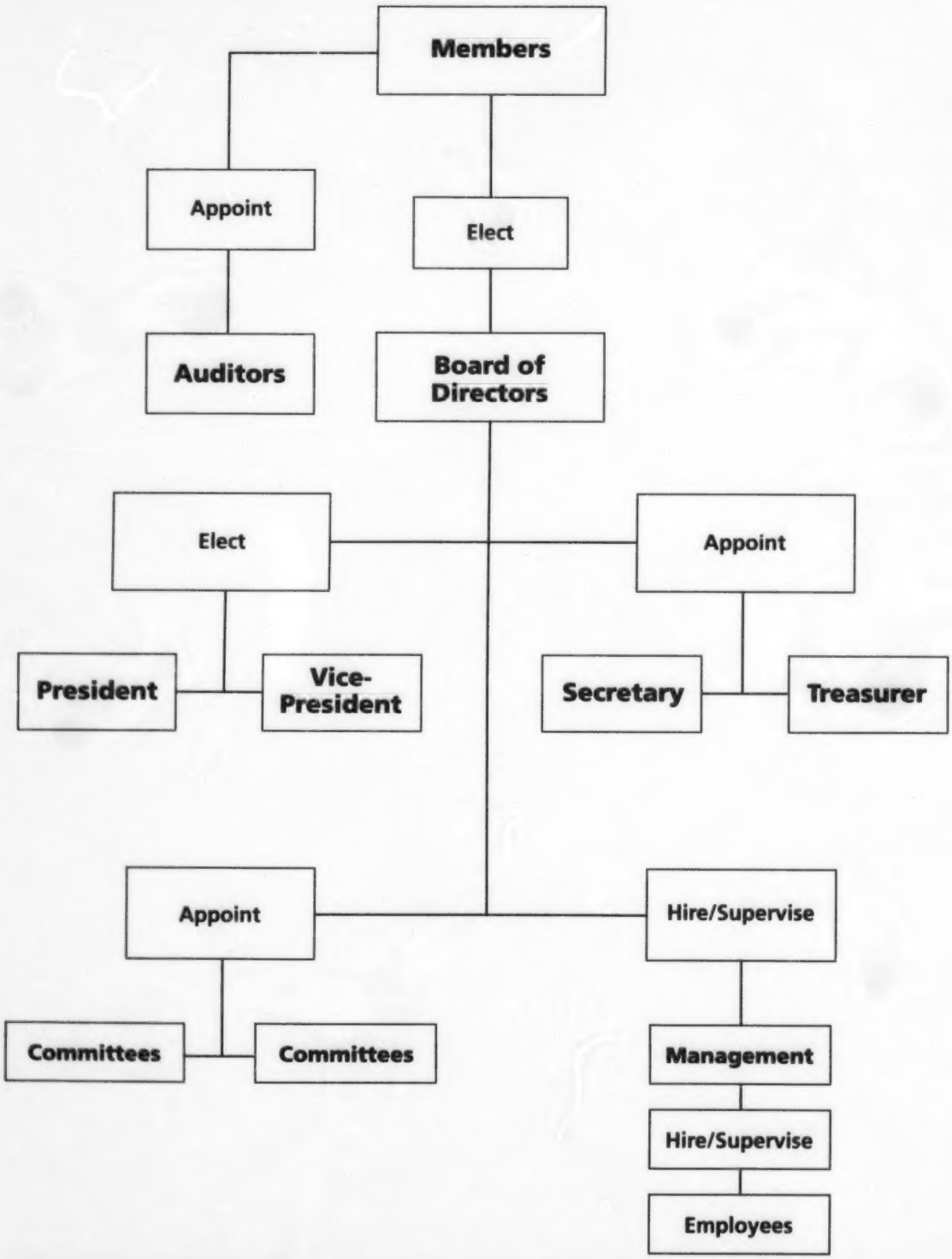
- why they should invest in the proposed enterprise;
- the seriousness of the enterprise; and
- the team's ability to launch and develop it successfully.

Prepare for business launch

Once the business plan has been decided, identify leaders to run the equity drive. When the volumes of business and equity targets set out in the business plan have been agreed to by the members, and they are prepared to support and do business with the co-operative, the co-operative is ready to launch the business.

This will involve hiring management, acquiring or building facilities, hiring and training staff and opening for business.

ORGANIZATIONAL STRUCTURE



ROLES

1. Members

Members have the overall responsibility to ensure that the co-operative continues as a strong viable organization.

Members are expected to:

- patronize and support the co-operative;
- set broad objectives and bylaws;
- observe the bylaws and policies of the organization;
- participate in members' meetings and keep informed;
- provide financing;
- elect a competent board of directors;
- appoint the auditor;
- participate on committees;
- approve any fundamental changes to the Articles of Incorporation;
- approve amendments to the bylaws;
- approve any major purchase or disposal of assets; and
- remove a director for cause.

2. Directors

The directors are elected by the members to manage the co-operative and to provide leadership.

The directors are expected to:

- conduct the business and the affairs of the co-operative in the best interest of the membership;
- develop policies and provide general direction to management, committees and members;
- ensure adequate financial records, membership list, minute book and other records are kept;
- obtain training required in their role as directors;
- hire competent management;
- provide information and leadership to members and management;
- monitor performance of management and committees;
- ensure new members receive orientation to their rights and responsibilities; and
- approve new member applications and withdrawal or termination of memberships.

3. Management

The directors may delegate responsibilities to management.

Management is expected to:

- manage the business operations according to board policies;
- hire and supervise staff;
- present operating reports to the board and recommend policy changes; and
- promote good public and member relations.

4. Committees

Directors may establish various committees to perform specific tasks.

Committees:

- usually consist of directors, members and sometimes staff;
- act only under the authority of the board;
- should have a specific purpose and written terms of reference; and
- should report to the directors.

Some typical committees established by co-operatives are fundraising, nominating, finance, member relations, special events, building and audit.

FINANCIAL PROGRAMS

I. The Co-operative Loans and Loans Guarantee Board

This board provides loan guarantees. Co-operatives applying for a loan guarantee must demonstrate that:

- The funds will not be used for refinancing or for payment of an existing debt.
- An effort has been made to secure financing at reasonable terms.
- The loan is for productive purposes and the guarantee is necessary to the success of the project.
- There is reasonable evidence of an ability to repay the loan.
- Normal co-operative principles and business practices are being followed.
- Reasonable security is available.
- Members have sufficient equity so that their risk is at least equal to that of the requested guarantee.

It is important that co-operatives have access to the basic financial services necessary for their development and expansion. Co-operatives may consider applying to the board if they are unable to obtain financing on reasonable terms.

II. The Cooperative Promotion Board

The board was established to assist and encourage the development of co-operative enterprise in Manitoba. Grants may be awarded:

- as awards, scholarships or bursaries, for any competition or studies related to the philosophy, principles, business or affairs of co-operatives;
- to promote co-operative research, information and education projects;
- to develop and promote co-operatives; and
- to promote the general welfare of the co-operative organization.

For more information on The Co-operative Loans and Loans Guarantee Board or The Cooperative Promotion Board, please contact:

Industry, Trade and Mines
Co-operative Development Services
7th floor, 155 Carlton Street
Winnipeg, MB R3C 3H8
Telephone: (204) 945-3748
Toll free MB only: 1-800-282-8069
Fax: (204) 945-2302
E-mail: jwanke@gov.mb.ca

DEVELOPMENT ASSISTANCE

Assistance is available to individuals, groups and communities wishing to develop a co-operative, and to existing co-operatives wishing to expand. Manitoba Industry, Trade and Mines' Co-operative Development Services provides support and assistance with all the steps involved in setting up a co-operative through its consultants.

General Assistance

Consultants are available to help you recruit potential members through meetings, present your idea and its benefits, measure and evaluate the project, and determine if the members will best be served by a co-operative.

Other assistance includes:

- general information on co-operatives
- non-financial assistance programs for development of co-operatives
- financial assistance programs for start-up or expansion of co-operatives
- consultants who can help you identify needs and opportunities for co-operative development
- encouragement and support for individuals, groups and organizations considering developing co-operatives for community improvement and economic diversification

Incorporation

Co-operative Development Services provides information on various corporate structures and other matters you need to know before filing a request to the Registrar of Co-operatives for incorporation. We also offer counselling assistance in the incorporation of new co-operatives. Professional assistance from lawyers and accountants is recommended.

Counselling services

Consultants services provide basic information and advice that will help emerging co-operatives ask the right questions when dealing with professional advisors.

Training

Training of directors and members on their roles and responsibilities is provided upon request.

Regulatory

Assistance may be provided to help co-operatives comply with the requirements of The Cooperative Act and Regulations.

Operations

Operation planning services are important components of the start-up process. Consultants are available to provide assistance with operational matters, including how to set and meet operational objectives, expansion planning, and research and development of new products. They will also help you access government programs that can provide additional assistance.

For more information or assistance on how to incorporate, contact:
Industry, Trade and Mines
Co-operative Development Services
7th Floor, 155 Carlton Street
Winnipeg, MB R3C 3H8
Toll Free MB only: 1-800-282-8069
Telephone: (204) 945-3748
Fax: (204) 945-2302
E-mail: jwanke@gov.mb.ca

Consumer and Corporate Affairs
Registrar of Co-operatives
1115-405 Broadway
Winnipeg MB R3C 3L6
Telephone: (204) 945-4466
Toll Free MB only: 1-800-282-8069
Fax: (204) 948-2268
E-mail: coop-cu@gov.mb.ca